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May 1, 2001

BY HAND
Magalie Roman Salas, Esquire
Secretary
Federal Communications Commission
The Portals
445 12th Street, SW, Room TWB204
Washington, D.C. 20554

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MAY - 1 2001

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: CC Docket 96-45
Petition for Limited Waiver and
Petition for Reconsideration
Roseville Telephone Company

Dear Ms. Salas:

Attached, please find a copy of a letter sent today to Ms. Carol Mattey, Deputy Chief of the Common Carrier Bureau, providing additional information in connection with Roseville Telephone Company's pending Petition for Limited Waiver and Petition for Reconsideration in CC Docket 96-45. Please include the attached letter in that docket.

Please contact me if you have any questions.

Sincerely,

Paul Feldman

Paul J. Feldman
Counsel for Roseville Telephone Company

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Enclosure

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May 1, 2001

VIA HAND DELIVERY
Ms. Carol Mattey
Deputy Chief – Common Carrier Bureau
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

RECEIVED
MAY - 1 2001
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: CC Docket 96-45
Petition for Limited Waiver and
Petition for Reconsideration
Roseville Telephone Company

Dear Ms. Mattey:

Recently, you requested that we provide you with additional information in connection with Roseville Telephone Company's pending Petition for Limited Waiver, and its Petition for Reconsideration in CC Docket 96-45. Specifically you requested further information regarding the special circumstances surrounding Roseville's situation, and why that a deviation from the general rule for high-cost support would serve the public interest. You also requested that we contrast Roseville's situation with that of the Puerto Rico Telephone Company ("PRTC"). This information is provided below.

Many of the special circumstances that form the basis of Roseville's requested relief derive from the fact that Roseville is unique within the universe of non-rural carriers. In terms of its size, cost characteristics, reliance on explicit high-cost support and its rate-of-return status, Roseville is much more like a rural carrier than a non-rural carrier. Indeed, Roseville is the only non-rural carrier currently receiving hold-harmless support that has less than 200,000 loops and is not part of a holding company with LEC operations in multiple study areas. The following is a brief synopsis of the facts and data that demonstrate the special circumstances involved in this matter, and which support the relief that Roseville has requested:

SIZE

Roseville is the only non-rural company receiving hold-harmless support that is not part of one of the "Big 5" holding companies. The gap between Roseville and these other companies in terms of lines served and the number of central offices owned is truly staggering as shown on the following chart:

Company	Loops (000)	Wire Centers
Verizon	62,276	6,248
SBC	58,919	3,217
BellSouth	24,780	1,591
Qwest	6,884	1,259
Sprint	7,874	1,371
Roseville	**123**	**2**

COST CHARACTERISTICS

Explicit high-cost support for non-rural LECs is determined by the Commission's proxy cost model. The input factors used in the model are based upon data from the RBOCs, and necessarily reflect the scale and scope economies of a company their size. As previously noted in both the Petition for Limited Waiver and the Petition for Reconsideration, since Roseville has neither the size nor the scope of the "Big 5" holding companies, it is reasonable to conclude that the model is likely to be seriously flawed related to Roseville's cost. Furthermore, as noted in Roseville's pending Petitions, the Rural Task Force concluded, based upon an extensive analysis, that the model is not sufficiently precise at the individual wire center level for use in determining support requirements for LECs with relatively few wire centers.

RELIANCE ON HIGH-COST SUPPORT

The FCC has historically provided a higher level of high cost support to smaller LECs. Since 1987 the FCC has defined small LECs as those with a study area serving less than 200,000 lines. Study areas below this level receive **6 ½ times more** explicit federal support than would a study area with similar cost characteristics but more than 200,000 lines. Roseville is one of five non-rural study areas with less than 200,000 lines. The other four are owned by Verizon.

As a result of this higher level of federal support, small companies, including most rural ILECs, have lower intrastate rates than would be the case without this support. The following chart shows the significantly higher reliance that Roseville has on this federal support than the other non-rural carriers:

COMPANY	USF as % of Loop Rev. Req.
Verizon	0.54%
Verizon (w/o PR)	0.19%
SBC	0.03%
BellSouth	0.18%
Qwest	0.29%
Sprint	0.10%
Roseville	**6.68%**

In sum, Roseville's reliance on federal high cost support as a percentage of loop revenue requirements is **12 to 222 times** higher than the other non-rural LECs. Yet while Roseville's reliance on high cost support is substantially outside the range of the other non-rural carriers, it is well within the range of rural carriers.

RATE OF RETURN STATUS

Roseville is the only non-rural carrier receiving hold-harmless support that is unambiguously rate of return regulated.[1] This is significant since the Commission currently has before it the MAG Plan which, as stated in the Commission's recent NPRM "...sets forth an interstate access reform and universal service proposal for incumbent LECs subject to rate-of-return regulation" (emphasis added).[2] The other non-rural companies are price cap regulated, and have recently gone through comprehensive universal service and access reform through the CALLS proposal. Roseville should have the opportunity for its universal service support and access charges to be comprehensively reformed through the MAG initiative in the same manner as all other similarly situated rate of return carriers.

Of course, in addition to the special circumstances outlined above, we believe that there are compelling reasons that grant of the relief that we have requested would be in the public interest:

- Under the Part 36 rules, Roseville qualifies for explicit federal support of $1.65 per line per month.[3] This support goes to offset intrastate revenue requirements,

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1 PRTC, pursuant to a waiver, is currently regulated as a rate-of-return company, but must convert to price cap status by July 1, 2001. PRTC's parent company, Verizon, is a price cap carrier.

2 FCC 00-448 (released January 5, 2001) at para. 1.

3 Source: USAC Quarterly Administrative Filing 1Q01, Appendix HC1. This filing shows $204,081 of monthly support ($2.4M annually), or a per line amount of $1.65. This is an increase from the support indicated on the 4Q00 report.

meaning that absent this support, local residential rates would need to increase from $18.90 to $20.55. Consumer advocacy groups and Roseville subscribers would certainly consider such an increase to be significant and thus contrary to the public interest.

- Allowing Roseville to continue receiving support under the same rules as other similarly situated rate-of-return carriers would not harm other parties since Roseville's $2.4 million of annual federal high cost support constitutes less than 0.3% of the total USF. In contrast, rates to Roseville consumers would need to increase almost 9% to offset the loss of this support.

- Reduction of Roseville's high cost support is contrary to the universal service goals Section 254(b) of the Communications Act. It would be one thing to use a properly calibrated forward-looking cost model to determine the amount of support required and then reduce support to that level. However, as Roseville has repeatedly demonstrated, the model that has been used in this proceeding is calibrated to the scale economies of the "Big 5" holding companies which are price cap companies that are hundreds of times the size of Roseville. Arbitrarily reducing Roseville's support based upon this erroneous standard is clearly not in the public interest.

- The public interest requires that Roseville be afforded the same opportunity for a holistic review and reform of its universal service and access charge structures through the MAG as all other similarly situated rate of return carriers. Roseville is not a large price cap carrier, yet it is treated as though it were one through the Commission's non-rural universal service rules. It finds itself uniquely in this predicament because the Commission's choice of the 100,000 line dividing point for "non-rural" carriers inadvertently ignored the long standing practice of defining small study areas as those with less than 200,000 lines

The facts surrounding Roseville's situation are clearly distinguishable from those of PRTC. First, while PRTC is currently operating as a rate-of-return carrier, it is doing so under a waiver of rules requiring its conversion to price cap regulation. That waiver is set to expire on July 1, 2001. But even if the Commission grants PRTC's waiver to allow it to remain a rate-of-return company, it should be noted that PRTC is a subsidiary of a holding company (Verizon) that has tens of millions of lines other than in Puerto Rico, and thus PRTC has access to scale and scope opportunities that Roseville does not. Furthermore, the relief that PRTC has requested in their recent Petition for Reconsideration is fundamentally different from Roseville's requested relief. PRTC does not challenge the applicability of the new non-rural regime and proxy model to their operations. Rather they seek a delay in the implementation of the phase-out of hold-harmless support until the Commission's review of the forward-looking model on January 1, 2003, or in the alternative, that the phase out of hold-harmless support be implemented on a wire center basis. In contrast, Roseville's requested relief is based on the premise that Roseville is so unlike the universe of other non-rural carriers that it should not be subjected to the new non-rural mechanism. Instead, it should be treated for both universal service and access reform in a manner similar to other similarly situated rate-of-return carriers.

In sum, uniquely special circumstances surround the high cost support situation for Roseville, including its small size (*i.e.*, under 200,000 lines), its rate-of-return status, its greater reliance on high cost support compared to that of other non-rural companies, and the fact that its is not part of a larger holding company with other study areas and significant scale economies. In addition, the public interest would be served by grant of relief to Roseville, to prevent rate shock to Roseville subscribers, and to promote the holistic reform of Roseville's access charge and universal service support in a manner consistent with that to be applied to other rate-of-return companies similar in size and nature to Roseville.

Time is of the essence in resolving Roseville's universal service status. The phase-out of hold-harmless support began on January 1, 2001. We will call you later this week to discuss how we can bring this matter to a timely resolution consistent with the public interest.

Sincerely,

Paul J. Feldman
Counsel for Roseville
Telephone Company

cc: Magalie R. Salas, Esq.
Mr. Greg Gierczak
Mr. Jack Day
Mr. Glenn Brown